

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, California 95814



September 9, 2004

ALL COUNTY LETTER NO. 04-35

TO: ALL COUNTY WELFARE DIRECTORS
ALL CalWORKs PROGRAM SPECIALISTS
ALL FOOD STAMP COORDINATORS

REASON FOR THIS TRANSMITTAL

- ☐ State Law Change
- ☒ Federal Law or Regulation Change
- ☐ Court Order
- ☐ Clarification Requested by One or More Counties
- ☐ Initiated by CDSS

SUBJECT: REVISION OF GUIDANCE ON THE TREATMENT OF THE MEDICARE PRESCRIPTION DRUG CARD IN THE FOOD STAMP PROGRAM (FSP) AND THE CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CalWORKS) PROGRAM

REFERENCE: FSP – All County Information Notice (ACIN) I-32-04, Administrative Notice (AN) 04-21, and AN 04-39

CalWORKs - Temporary Assistance for Needy Families (TANF) -
Administration for Children and Families - IM-2004-01

The purpose of this letter is to provide revised guidance on the treatment of the new Medicare Prescription Drug Card Program in the FSP and to provide clarification about how medical discounts are treated in the CalWORKs program (refer to subtitle "Impact of the Medicare Card on the CalWORKs Program"). Implementation of the following policies will be effective for all food stamp households on October 1, 2004. There will be a 120-day hold harmless period for Quality Control purposes starting October 1, 2004 through January 30, 2005.

Earlier federal guidance given to states stated that the \$600 credits and drug card discounts given through the Medicare Prescription Drug Card Program should not be treated as income or resources in the FSP and only out-of-pocket expenses could be taken into account when determining medical expense deductions. After further review of the policy, the Food and Nutrition Service (FNS) determined that the guidance did not fully comply with the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), which explains that discounts or credits received by cardholders shall not reduce the benefits received in the FSP.

AN 04-39 provided several options to states for allowing the credit and discount amounts as medical deductions. After reviewing the options and discussing the issue with the California Welfare Directors Association's Food Stamp Review and Advisory Team, the California Department of Social Services determined the following

methodologies for use in budgeting the drug credit and drug card discounts. The federal policy change resulted in the household being eligible, at a maximum, for out-of-pocket expenses plus the monthly deduction amount for the \$600 credit and the monthly allowance for the prescription drug card discount. The \$35 excess medical deduction is only applied to out-of-pocket expenses incurred by both discount cardholders and individuals in receipt of the drug credit.

Budgeting the \$600 Prescription Drug Credit

The \$600 credit, which is given to individuals whose income does not exceed 135 percent of the Federal Poverty Level, will be deducted from income as an excess medical expense deduction per MPP Section 63-502.33 at \$50 per month for twelve months. For example, if a client received the drug discount card with a \$600 credit in June 2004, the county welfare department will budget \$50 a month for the next 12 months regardless of whether the cardholder has a break in benefits. The \$50 credit per month is allowed regardless of any out-of-pocket expenses incurred by the participant. The \$35 excess medical deduction is applied only to out-of-pocket expenses.

The cardholder may receive another \$600 credit in January of 2005 and, as a result, the budgeting of the credit will extend for another 12 months. Most cardholders who receive the first credit will also receive the second credit, so the \$50 deduction will run continuously for 24 months regardless of a break in the receipt of food stamp benefits during the consecutive 24 month period. If the 24 consecutive month period extends beyond 2005 to 2006 and the household is still within the 24 month period, the deduction is allowed until the period ends.

To simplify administration of the Medicare-Approved Drug Discount Card policy, counties will allow the prescription drug credit to any cardholder whose income is no more than 130% of the Federal Poverty Level (FPL). It is the responsibility of the individual to inform the county that they are receiving the discount card. If the individual is receiving the discount card, the county is responsible for determining if the cardholder's income is below 130% of FPL. The prescription drug credit will be automatically allowed if the individual's income is below 130% of FPL.

Budgeting Prescription Drug Card Discounts

The discount from the prescription drug card will be budgeted by applying a flat \$23 per month for a medical expense deduction, per MPP Section 63-502.331(c). All cardholders will be eligible for this benefit whether or not they receive the annual credit, or whether or not they actually incur any drug cost. The \$35 excess medical deduction is applied to any out-of-pocket expenses incurred. In addition, the individual has the option to use actual out-of-pocket expenses that they incurred prior to using the

discount card if the actual expenses exceed the amount of expense incurred after calculating the expense as if the individual had used the card.

Examples:

- If a client is entitled to the \$600 credit, the household will receive a \$50 medical expense deduction and a \$23 medical expense deduction for the prescription drug card discount. As a result, the household's medical expense deduction would be equal to their out-of-pocket expenses (\$150 for example), plus the \$50 credit, and the \$23 prescription drug discount for a total of \$223 ($\$150 + \$50 + \$23 = \223).
- If the client is not receiving the \$600 credit but is receiving a discount on prescription drug costs, the household will receive a \$23 medical expense deduction. As a result, the household would receive their out-of-pocket expenses (\$150) plus the \$23 for the prescription drug discount ($\$150 + \$23 = \$173$). If out-of-pocket expenses did not exceed the \$35 excess medical deduction, no out-of-pocket expenses are allowed.
- If the individual opts to use the actual out-of-pocket prescription expenses (\$300) that they incurred prior to using the discount card, calculate the discount as if the individual had used it and compare to actual expenses. For example: The actual expenses are verified at \$300. The deduction amount using the discount card formula is \$173 ($\$150 + \$23 = \173). Since \$300 is greater than \$173 use the actual of \$300 providing adequate documentation is received from the individual.

As noted in earlier guidance, Medicare beneficiaries may also be charged an enrollment fee of up to \$30 which must also be treated as an allowable medical expense when determining the household's excess medical expense deduction, per MPP 63-502.331(e). The \$30 enrollment fee is averaged over the certification period, over the remaining months in the certification period or as a one-time deduction, at household option, for change reporting households. For Quarterly Reporting (QR) households, the deduction is averaged over the QR Payment Quarter or current and remaining months of the QR Payment Quarter.

Impact of the Medicare Card on the CalWORKs Program

Federal TANF-ACF Information Memorandum (IM) 2004-01 clarifies that the Medicare approved drug discount shall not be treated as income or otherwise taken into account in determining an individual's eligibility for any other federal program. For CalWORKs

Page Four

purposes, any portion of the \$600 credit(s) used for prescription drugs will be exempted entirely from income in determining whether an individual is eligible for assistance or in determining the amount of assistance. Likewise, the \$30 annual enrollment fee paid by the federal or state government shall not be considered when determining eligibility for CalWORKs.

If you have any questions about this revised guidance, please contact LeAnne Torres, Food Stamp Program at (916) 654-2135 or Jackie Shelley at (916) 654-1061 for CalWORKs.

Sincerely,

Original Signed by:

CHARR LEE METSKER
Acting Deputy Director
Welfare to Work Division